

## **Frequently Asked Questions Related to Implementation of New Financial Management Requirements (7-26-07)**

### **Fee for Service, Program Income, and Front-Line vs. Management Fee Expenses**

1. Is the asset management fee a monthly calculation? When is the fee established?

It is the PHA's option to charge the asset management fee all-at-once, on a monthly basis, or any other appropriate schedule. The fee is earned based on the previous year's financial statements; hence, the PHA can "pull" the fee as soon as the amount of Excess Cash is established, i.e., when the PHA closes its books for the year.

Please note, the fee, and its availability, is subject to final/audited excess cash calculation. Thus, if a PHA calculated its asset management fee based on pre-audited data and subsequently learned, with audited data, that it did not have enough Excess Cash to support the full fee, the PHA would need to reimburse the project accordingly.

2. Can an AMP charge a non-HUD program a fee?

If the AMP provides a service to the non-HUD program, then it can charge a fee, provided such activity is permissible under the program rules of the other program.

3. What impact would units scheduled for demolition/disposition have on the fees the COCC can charge?

For units that are scheduled for demolition or disposition, the COCC would continue to charge the normal management fee until the project becomes eligible for the Asset Repositioning Fee, i.e., the first day of the next quarter six months after the date the first unit becomes vacant after the relocation date included in the approved relocation plan. From that point forward, the COCC would charge a reduced management fee, in accordance with Section 7.5 of the Supplement to PIH Notice 2007-9.

4. The Supplement to PIH Notice 2007-9 allows PHAs to charge each project the cost of centralized rent collections. In addition to the time that a clerk in the central office handles rent collections, can a PHA charge a project the financial reporting aspect of rent collections, i.e., "accounts receivable?"

The actual process of collecting/process rent receipts is a front-line task. The bookkeeping and accounting aspect of rent collections should be funded through the management fee/bookkeeping fee.

5. What management fee should a PHA charge for portable vouchers?

For port-outs (i.e., a PHA's voucher holder uses the voucher in a community outside the PHA's jurisdiction), the initiating PHA should charge as a management fee the lesser of: (1) the eligible management fee and bookkeeping fee as allowed in the Supplement to PIH Notice 2007-9 or (2) the difference between the total administrative fee earned by the initiating PHA and the administrative fee paid to the receiving PHA. For example, assume that the administrative fee that the initiating PHA receives from HUD to operate the voucher program is \$40 PUM. The receiving PHA receives 80% of that fee, or \$32 PUM. The amount remaining is \$8 PUM. The PHA could retain that amount, \$8 PUM, as a management and bookkeeping fee for the section 8 program because it is not more than the normal management and bookkeeping fee that the PHA could earn on a voucher unit.

6. Can the costs associated with administering security contracts be prorated to the AMPs?

The cost of administering a project security contract should be a task of on-site staff. To the extent these contracts are overseen centrally, they should be paid with management fee proceeds. The exception would be if the agency maintains a centralized security operation. Page 40 of the Supplement to PIH Notice 2007-9 allows PHAs to pro-rate the cost of centralized security programs, including supervisory staff, if those activities cannot be readily identifiable to a project.

7. Can PHAs that have a central warehouse charge a mark-up on stored equipment?

A PHA must organize services "in the best interests of the project." To operate a central warehouse, a PHA must first demonstrate that such arrangements are cost-effective. If such is the case, the PHA must charge not more than the market rate for the goods or services provided and not more than what a similar project would pay under normal site-based management operations.

8. If the Executive Director also provides direct legal services to AMPs, can part of the Executive Director's salary be charged as a front-line expense and/or can the COCC charge a fee for that legal service?

Yes. A COCC can charge a site for front-line services, but only what's reasonable and necessary. For example, if the Executive Director, who is also an attorney, chooses to handle an eviction case, the COCC could charge the project a fee for handling the eviction or could charge for the actual time spent working on the case, provided these charges were not more than what the project would incur for legal services under an arms-length transaction.

9. Can COCC employees spend time at an AMP to cover for AMP personnel while they are out on vacation?

Yes. Similar to question nine, above, certain circumstances may warrant a temporary assignment of an employee from COCC to an AMP. The cost of the employee temporarily assigned to the AMP should be limited to the extent of services performed on behalf of the AMP. The COCC cannot charge the AMP more than the rate that would normally be paid for the employee whose absence is being filled.

10. If a property is not doing well, must a PHA charge a bookkeeping fee?

We recommend that the bookkeeping fee be charged to the AMP. This will reflect the true operating costs of the property. The COCC can transfer operating funds back to the AMP that would be accounted for as an operating transfer.

11. Is the development fee a one time fee, or can I charge it over the life of the project?

The development fee may be accrued and paid throughout the duration of the development cycle. However, it may not be charged throughout the serviceable life of the project.

12. If a PHA's IT department makes a repair to a computer at an AMP, can it charge a fee for that work?

If the service is AMP-specific, then a fee-for-service, similar to centralized maintenance, is allowable. The market rate requirements also still apply. Or, the PHA can charge the project the actual costs for the centralized IT employee's time.

13. Can a PHA purchase, through the Capital Fund Program, a printer for the central waiting list?

Capital funds may be used to purchase equipment that benefits administrative front-line services as outlined in section 7.10, Assignment of Costs, in the Supplement to HUD Handbook 7475.1, Rev. 1. While the asset may be controlled by the COCC, the cost will be recorded as an asset of the AMP(s). However, the item must be reasonable and necessary to fulfill the responsibility and not cost more than if the asset could be purchased and used on-site. In addition, it must be proven that the majority of the use will be from AMP personnel.

14. If a PHA performs rent collections on-site, but sends the monthly rent statement from the Central Office, can the PHA charge each project for the cost of this central activity?

No. To the extent that the PHA sends out rent statements centrally, this activity should be covered by the bookkeeping fee.

15. Under the Housing Voucher Program, can the COCC accrue the management fee if funds are not sufficient in any year to pay the fee??

Yes. The PHA can accrue the fee.

16. Can the COCC charge rent to the Section 8 HCV program if the building where the space is located was purchased/acquired/maintained with non-public housing funds? Moreover, would these funds be considered non-program income?

A PHA could charge rent to the Section 8 Voucher program for space not purchased/acquired/maintained with public housing funds. Such rental income would be considered non-program income.

17. Can a PHA accrue property management fees?

Yes.

18. In the calculation of excess cash, the prior year financials determine whether excess cash is available for an asset management fee. Does this mean that a particular AMP can only have excess cash every other year?

No. Each year, an AMP may yield excess cash, depending on circumstances unique to a particular reporting period.

### **Capital Fund**

19. Can PHAs use the Capital Fund grant to purchase computer systems?

Yes, if the purchase is for systems/equipment for the direct benefit of an AMP(s). The Capital Fund cannot purchase equipment of the COCC.

20. PHAs cannot charge management fees for any un-obligated funds from Capital Fund grants from Federal fiscal year 2006 and prior. As a result, how can a COCC absorb the administrative cost for CFFP prior to 2006 since they cannot charge the fees?

A COCC does not need to absorb these costs. For 2006 and prior year Capital Fund grants, the PHA will continue to charge actual costs for administration, up to the 10% established by regulation.

21. Can a PHA use the Capital Fund to establish a replacement reserve?

Under CFR 968.112 (f), replacement reserve funding is limited to Comprehensive Grant Program (CGP) only. The CGP provided for reserve for replacement account funding, per BLI 1490.

22. Like the Operating Fund program, will the Capital Fund Formula eventually be distributed based on AMPs?

Any change in the Capital Fund formula or method of allocation would require a change in regulation and, possibly, statute.

23. Should memo accounts reporting Capital Fund expenditures be based on cash accrual or full accrual basis of accounting?

Memo accounts, as well as all other financial activity reported at year-end to HUD, should be based on full accrual accounting.

24. If funds are drawn down for management fee under the Capital Fund program (BLI 1410), must the COCC expend these funds within three days (as is normally required under program rules)?

No. The payment of the management fee counts as an expenditure to the program. The AMP reports a management fee expense when the fee is paid to the COCC. The COCC can spend its fee income as it sees fit.

25. Historically, PHAs had to split Capital Fund grant revenue between the portions they will use for operating vs capital purposes. Will PHAs continue to show this split?

Yes. On the FDS, PHAs should report all revenue recognized in the reporting period from the Capital Fund program that is capitalized under FDS Line Item 706.1. All Capital Fund revenue that is not capitalized should be reported under FDS Line 706. For example, if a PHA draws down \$1.0 million Capital Funds in a particular fiscal year, of which \$100,000 was for Operations and \$900,000 to replace a roof, the PHA would report \$100,000 under FDS Line 706 and \$900,000 under Line 706.1.

26. If, at the time of implementation, a Capital Fund grant has drawn down only 5% of the authorized administrative funds, can the remaining 95% then be charged based upon a management fee, once the PHA begins its first year of project-based budgeting/accounting?

Yes, at the beginning of the first required year of project-based budgeting and accounting, the COCC can charge the remaining balance of 2007 award and after as a management fee to the AMP(s). For 2006 and earlier awards, actual costs must be used to substantiate draws.

27. In some circumstances, PHAs may obligate capital expenditures and draw down funds from the appropriate BLI account. However, sometimes the obligation will be cancelled and the fund will not be expensed. Where would the PHA report these unexpended funds?

The cash portion of the transaction would be recorded to cash restricted for current liability. The credit portion of the entry would be recorded to deferred revenue on the balance sheet.

28. Currently, PHAs create a P&E (Performance & Evaluation) report which tracks assets created using the Capital Fund. These assets remain as part of the Capital Fund Program in a PHA's general ledger until the development is complete. These assets are then transferred to the Low Rent Program. Will this process be impacted by the new FDS reporting model of one balance sheet for each AMP?

No. While there will be separate columns for each for reporting income and expenses of the Operating Fund and a Capital Fund programs, there will only be one combined balance sheet for each AMP.

29. A PHA undertakes \$1.0 million in capital improvements under the Capital Fund Financing Program (CFFP), making \$100,000 debt service payments over 12 years. How should those improvements be reported on the Operating Statement?

The cost of the capital improvement project should be recorded on the balance sheet as an asset. The cost incurred during the year would be listed in the memorandum account. The annual debt service payments would be charged to interest expense and a reduction to the notes payable for the principal portion.

#### Excess Cash

30. Do the "fungibility" provisions (transferring excess cash between projects) also apply to mixed finance projects?

Yes.

#### **Assignment of Assets and Liabilities and other Balance Sheet Questions**

31. When an employee transfers from one project to another, and to-and-from the COCC, does the accumulated leave transfer along with that employee?

Yes. The liability is transferred with the employee.

32. Assume that a PHA has a central administrative building that it has assigned to the COCC. Presently, the admin building remains a program asset. However, assume that the PHA receives approval from HUD to dispose of that asset. Where should those proceeds be reported?

Those sale proceeds should be reported as a restricted asset of the COCC (restricted to the uses permitted in the approved disposition application).

33. After funding the COCC, how should PHAs assign the remaining cash among the AMPs?

Through a reasonable methodology which is definable.

34. A PHA assigns to the COCC an asset of the public housing program that is fully depreciated, but still generates revenue. Must the PHA record the revenue at the project?

No. The revenue is reported at the COCC but the use remains restricted (cannot be used for non-program purposes).

35. In the event that an employee transfers between AMPs, and that employee has accrued benefits, must the sending AMP pay the receiving AMP a cash payment equal to the accrued benefits? This may be accomplished via excess cash transfers, but what if the sending AMP has no excess cash? Shouldn't the sending AMP be required to "pay out" the value of the accrued benefits to the receiving AMP just as a resigning employee would receive the accrued value of his benefits when he resigns from a company?

Yes. If an AMP does not have the necessary resources to immediately pay the receiving AMP, then the receiving AMP should record an accounts receivable and the sending AMP should record an accounts payable.

36. Forcing PHAs to allocate liabilities may expose many under-funded pensions. Allowing PHAs to set a new amortization schedule each year would allow the PHA to continue the under funding. Should HUD require a shorter schedule in cases where cash flow is an issue?

The pension liability existing prior to asset management is allocated to AMPs on a reasonable basis. PHAs should defer to professional advice and resources including the Financial and Governmental Accounting Standards Boards (FASB, GASB). HUD reserves no authority to modify GAAP and related guidance regarding pension.

37. Can the COCC prorate the costs associated with vacation liabilities that have increased due to an employee's compensation increasing? These are legacy liabilities that increase after the initial assignment of asset/liabilities?

No. Legacy costs represent obligations incurred prior to the commencement of asset management. Generally, vacation liabilities pertain to existing employees, as opposed to retirees (legacy). Any increase to a vacation benefit represents a PHA compensation policy regarding an existing employee.

38. Are there any rules regarding the assignment of unrestricted investments at the initial creation of the balance sheet? Can any of these investments be assigned to the COCC ?

Only cash and investments equal to six months of working capital (Property Management fee, Asset Management fee and Bookkeeping fee) can be assigned to the COCC. In addition, investments can be assigned to the COCC as a set-aside for legacy liabilities including legal, pension, accrued compensated absences (vacation, sick leave) and OPEB.

39. After the initial allocation of the balance sheet, where should PHAs report future OPEB/pension liabilities? At the AMP/Program level or at the COCC? Can the PHAs report these liabilities at the AMP?

Future liabilities incurred will be reported where the liability is incurred.

40. Should vacation liabilities of front-line employees be reported at the COCC?

No. Vacation liabilities typically relate to existing employees, and the liability is assigned to the place where the employee is assigned (AMP, COCC)

41. Page 20 of the Supplement to PIH Notice 2007-9 states that: "The costs for these liabilities will be charged to the COCC for all employees." Does this mean for both the pension and OPEB liabilities incurred prior to conversion to asset management? Also, when it says "all employees", does that mean all retired employees or does it even include employees who are now assigned to an AMP?

The reference applies to Pension and OPEB per Pension & OPEB subsection of the Supplement. The 4<sup>th</sup> paragraph, last sentence lends clarity as follows: "Liabilities related to the PHA's pension plan would be treated in a similar manner."

It also refers to all employees, current and retired. This includes benefit obligations (legacy) applicable to current employees, incurred prior to asset management. This legacy portion remains an obligation reported at the COCC. However, a PHA may recover this legacy portion from the AMP's since it's payable from program income (current and retired employees). Subsequent benefit obligations (pension & OPEB) of a COCC employee is payable

through non-program income, while for AMP employees, it's an identifiable charge to the respective AMP where the current employee is assigned.

42. The fourth bullet under section 6.2 of the Supplement to PIH Notice 2007-9 reads: "Use of these funds for other HUD-approved eligible purposes, including..." The second bullet discusses the use of excess cash for PHA -wide lawsuits, etc. The third bullet talks about Accrued pension liabilities, etc. On pages 20 and 21, it says these items are not subject to the excess cash rules. Please clarify.

While legacy costs are not subject to excess cash, any excess cash is available to further fund such legacy costs.

43. Should Replacement Housing Factor (RHF) funds be reported under the "Other AMP" column if the project does not yet have a development number?

Yes.

44. If a PHA assigns an asset to the COCC that is restricted, can the PHA sell this asset and unrestrict it?

No. Under current guidelines, the proceeds generated from the sale of these assets are considered program income and listed as a restricted asset.

### **Other FDS Reporting Questions**

45. If an AMP disposes of all its assets, but still receives an asset repositioning fee, where is that revenue reported?

A PHA should continue to report the revenue at the project. (In other words, a PHA will maintain a supplemental schedule for each project on the FDS for as long as the project receives revenue.)

46. How should a PHA allocate disaster funds intended for more than one AMP? Any reasonable allocation method is acceptable.

47. Should transactions between non-HUD programs and COCC be eliminated before FDS reporting, or should these be eliminated within the elimination column on FDS?

Any such transactions warranting elimination would be eliminated within the elimination column on the FDS.

48. If a PHA performs property management services as an outside business activity (say, for a non-profit housing provider), to what account should the COCC book the management fee?

The PHA should use the FDS line item 707.1, Management fee, i.e., there is not a separate line item for management fees earned from public housing and management fees earned from other business activity.

49. Why are compensated absences not included as part of the labor cost categories?

Since these costs are substantially accrued, they are segregated from related wages and salaries expenses, which are typically paid/payable on a more immediate basis.

50. Can the COCC charge AMPs/programs for legacy vacation liabilities if the liability increases as a result of pay raises for the affected personnel?

Vacation liabilities are generally applicable to existing employees, and therefore are generally not legacy liabilities. The accrued vacation should be assigned to the AMP/COCC where the employee is assigned at the adoption of asset management. The liability would then follow the employee, i.e. in the event of a transfer to another AMP, COCC.

51. A March PHA may not know its final pro-ration percentage before submitting their unaudited FDS. How can they make the calculation of Gross Potential Subsidy?

The net amount of the operating fund subsidy should match the amount of funds made available through the LOCCS system during the fiscal year. The pro-ration amount will need to be estimated. The amount can be estimated by taking the previous calendar year pro-ration level. There is no net effect to the financial statements based on this estimate.

52. A PHA receives a \$100,000 grant from the local municipality's CDBG program. When the PHA reports this activity on the FDS, should it show the \$100,000 under a column with the CDGB CFDA number?

For FDS reporting CDBG is considered a federal program and has its own CFDA number. A PHA should report this activity as a separate program on the FDS even if the funds are received as a sub-recipient (i.e. not as a state/local program). However, HUD will not usually reject the submission if the PHA reports this as a state/local program but properly reports this program under the correct federal CFDA number on its schedule of federal awards.

53. A PHA receives outside funding that is used to support one or more AMPs, e.g., a local grant for supportive services. Should these funds be reported inside the respective AMP columns or should this activity be reported under a separate column (possibly combined with other outside grants)?

It depends on the source of funding, Additional funding, that is considered federal, that is funds that will be reported on the Schedule of Federal Awards, will need to be reported under its own CFDA # as listed on the Financial Data Schedule. All other revenues, including local government sources, will be reported under the operating fund column as other governmental grants. The corresponding expenses will also be reported under the respective (AMP) operating fund column.

#### MIXED FINANCED PROJECTS AND COMPONENT UNITS

54. Where should a PHA record the operating subsidy payment to a mixed finance project?



The subsidy payment to a mixed finance project should be recorded under FDS line 962, Other General Expenses.

55. Can PHAs assign assets and liabilities to mixed finance AMPs?

Yes. Asset and liability assignment to mixed finance projects is acceptable subject to governing contracts and agreements.

56. Can a PHA charge a bookkeeping fee for ACC units of a mixed finance project?

Yes. To the extent that the management company of the mixed finance project does not also charge a bookkeeping fee, the COCC may keep the bookkeeping fee itself.

57. If a PHA reports a mixed finance project as a component unit/business activity then ACC units will be reported twice, once in the AMP column and once in the component unit/business activity column. Should the ACC units be “eliminated” to ensure the total PHA unit count is correct?

ACC units are to be reported in AMP columns only.

58. If a mixed finance project has been designated in an AMP with other public housing developments and does not receive a unique operating subsidy as a result, how does this impact reporting? Will the AMP have to be re-designated?

While phases may be consolidated under one AMP grouping, generally, a mixed finance project receives its own AMP designation.

59. If the financial data is not included in the total column of the FDS and subsequently the entity wide financial statements, will that information be included as part of the PHA audit, e.g., discretely presented component units?

Discretely presented component units are separate legal entities and they may not be directly included in the PHA wide audit. The component unit may therefore receive its own separate audit. PHA auditors will refer to this audit in their discussion of PHA data.

### **Project-Based Budgeting**

60. For purposes of budgeting, how should a PHA handle transfers from other AMPs under the fungibility provisions?

For budgeting purposes, the PHA may reflect the transfer in any reasonable manner according to its budgeting structure, while these line items must reconcile to the FDS. Inter-AMP Excess Cash Transfer In or Out, per FDS Line Items 10091 and 10092 is the preferred (FDS) method.

61. How should capitalized expenditures be budgeted?

To comply with program requirements, a PHA does not need to budget capitalized items funded through the Capital Fund. A PHA may include these amounts at its own discretion. However, a PHA that has planned capitalized expenditures funded through equity (reserves, transfers, etc.) should budget accordingly.

62. We have to prepare a budget for our upcoming fiscal year. In order to determine projected occupancy, do we use the first day of the month, last day of the month or should we split the month?

For budgeting purposes, the PHA can use any of the above methods, provided it is consistent in its methodology.

63. Under asset management, does a COCC have to pay rent to a project if it uses office space at the project?

A COCC does not have to pay rent for space in a project; However, the COCC should allocate and pay its proportionate share of utilities and other office expenses.

64. Can the proceeds from the sale of an AMP be used for payment of the Asset Management Fee?

No. Asset management fees may only be paid for units under ACC. Once a unit is removed from inventory, it can no longer receive an asset management fee; however, it can receive a management fee, based on a sliding schedule for units undergoing demolition or disposition (see Section 7.5 of the Supplement to PIH Notice 2007-9).

### **Unit Status Categories/Reporting**

65. Gross potential rent: Agencies are funded based upon units in PIC, not units on the ACC. Therefore, in reporting Gross Potential Rent on the FDS, shouldn't this figure be based on units in PIC and not ACC units. (As it is now, the "gross potential rent" may be inflated by units on the ACC that do not actually exist.)

PHAs should not include ACC units that do not exist or have no potential to receive rent (i.e. units eligible to receive the asset repositioning fee) in their calculation of Gross Potential Subsidy or Rent. It is anticipated that gross potential rent will be tied to PIC.

66. Certain unit status categories require HUD approval. How should PHAs enter information on unit status categories if HUD approval has not yet been received?

If the unit status has not been approved, the PHA should not include it in the eligible vacancy category. Once approved the PHA should be able to make an update to their subsidy calculation. PHAs should remember that unit status is based on a previous year snap shot ending in June. Therefore PHAs should be able to obtain a final decision before the initial subsidy calculation.

67. Should PHAs continue to use FDS line items 71300 (Proceeds from disposition of assets held for sale) and 71310 (Cost of Sale of Assets)? A PHA was told by an auditor to remove any entry from these line items since these are used for government accounting and, therefore, to record the activity under FDS line item 71600 (Gain or sale of fixed assets) ?

PHAs can still use 71300 and 71310; however these accounts were added to account for those housing authorities who have a line of business of building and selling affordable housing or a similar product.

The sale of a fixed asset should be accounted for in FDS line 71600 "Gain or Loss on Sale of Fixed Assets" and not in the FDS line items 71300 and 71310.